

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PERU

YOUTH LABOR TRAINING PROGRAM

(PE-0241)

LOAN PROPOSAL

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BASIC SOCIOECONOMIC DATA

For basic socioeconomic data on Peru, please refer to the following address:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

INFORMATION AVAILABLE IN THE RE3/SO3 FILES

Preparation:

- Capacitación y Entrenamiento Ocupacional en el Perú: Situación y Opciones de Política [Vocational training in Peru: Situation and policy options]. Jaime Saavedra. Grupo de Análisis para el Desarrollo (GRADE). February 2003.
- ProJoven Program feasibility study. Approved by the Ministry of Economic Affairs and Finance.
- Estudio de los Mecanismos para Aumentar la Inserción Laboral de los Beneficiarios [Study on mechanisms for increasing beneficiaries' participation in the labor market]. Santiago Consultores Asociados. Final consultants' report for the Inter-American Development Bank.
- Una Medición del Impacto del Programa de Capacitación Laboral Juvenil ProJoven [Measuring the impact of the ProJoven youth labor training program]. Hugo Ñopo, Miguel Robles and Jaime Saavedra. Grupo de Análisis para el Desarrollo (GRADE). Working Document No. 36.
- Las Entidades de Capacitación y su Vinculación con las Empresas: Factores de Éxito e Impacto del Programa [Training institutions and their corporate links: Factors affecting the program's success and impact]. Carmen Villegas. Final consultants' report for the Inter-American Development Bank. September 2003.
- Que funciona y que no funciona en ProJoven? Proceso de capacitación y lineamientos para su medición [What works in ProJoven and what doesn't? The training process and measurement guidelines]. Juan Chacaltana et al. Final consultants' report for the Inter-American Development Bank. August 2003.
- Medium-term impact assessment of the ProJoven Program. Hugo Ñopo and Jaime Saavedra. Grupo de Análisis para el Desarrollo (GRADE). June 2003.
- Recommendations for improvements in setting the baseline for ProJoven and suggestions for building a randomized baseline as part of an experimental design. Hugo Ñopo and Jaime Saavedra. Grupo de Análisis para el Desarrollo (GRADE). Final consultants' report for the Inter-American Development Bank. July 2003.
- Study on improving linkages between the Program Executing Unit and the Training Institutions. Santiago Consultores. November 2003.

ABBREVIATIONS

CAPLAB	Programa de Capacitación Laboral [Labor Training Program]
CEO	Centro de Entrenamiento Ocupacional [Occupational Training Center]
CIL	Centro de Intermediación Laboral [Labor intermediation Center]
ENAH0	Encuesta Nacional de Hogares [National Housing Survey]
IDB	Inter-American Development Bank
IST	Instituto Superior Tecnológico [Higher institute of technology]
MEF	Ministerio de Economía y Finanzas [Ministry of Economic Affairs and Finance]
MTPE	Ministerio del Trabajo y Promoción el Empleo [Ministry of Labor and Employment Promotion]
OC	Ordinary Capital
OR	Operating Regulations
OVE	Office of Evaluation and Supervision
PEU	Program executing unit
PISA	Programme for International Student Assessment
PTI	Poverty-targeted investment
SDC	Swiss Agency for Development and Cooperation
SENATI	Servicio Nacional de Adiestramiento en Trabajo Industrial [National Industrial Training Service]
SIL	Sistema de Intermediación Laboral [Labor intermediation System]
TIS	Training institutions
UBN	Unmet basic needs

YOUTH LABOR TRAINING PROGRAM

(PE-0241)

EXECUTIVE SUMMARY

Borrower:	Republic of Peru	
Executing agency:	Ministry of Labor and Employment Promotion (MTPE)	
Amount and source:	IDB: (OC)	US\$18 million
	Local:	US\$ 8 million
	Total:	US\$26 million
Financial terms and conditions:	<p>The interest rate, credit fee, and inspection and supervision fee mentioned herein are set pursuant to document FN-568-3 Rev and may be modified by the Bank's Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendation. Under no circumstances may the credit fee exceed 0.75% or the inspection and supervision fee exceed 1% of the loan amount.¹</p>	
	Amortization period:	25 years
	Grace period:	4 years
	Disbursement period:	4 years
	Interest rate:	LIBOR-based option
		0%
	Inspection and supervision:	0.25%
	Credit fee:	U.S. dollars under the Single
	Currency:	Currency Facility
Objectives:	<p>The program's overall objective is to help provide economically disadvantaged youths between the ages of 16 and 24 with access to the formal labor market. This is to be accomplished by means of specific activities designed to provide vocational training and work experience, in conjunction with labor intermediation, orientation and information services, that will meet the business sector's and labor market's requirements. The program is also intended to foster competition and efficiency in the training services market by</p>	

¹ In any given six-month period, the inspection and supervision fee to be charged will in no case exceed the amount that would result from the application of a charge of 1% of the loan amount, divided by the number of six-month periods included in the original disbursement period.

promoting greater interaction between training providers and businesses in the production sector. The program's specific objectives are to help raise the labor participation rate, job quality, and wage levels of young people in the target group.

Description: The proposed program has been structured on the basis of the following four components:

1. Vocational instruction in training institutions (TIs) and businesses (US\$15.7 million)

This component's objective is to provide vocational instruction to program beneficiaries in training institutions (TIs) and businesses. The training will last approximately six months (three months in the TIs and three months in business firms) and will take the form of technical options determined by the program based on the availability of on-the-job trainee positions in business enterprises. This procedure will ensure that the training is aligned with demand in the production sector. The TIs will be responsible for placing beneficiaries in companies and ensuring that the internships are completed. This hands-on phase of the vocational training exercise will be conducted in accordance with an employment agreement, an employment contract, or an internship arrangement.

This component will include the following subcomponents: (i) targeting of beneficiaries; (ii) vocational training in TIs; (iii) on-the-job training in business enterprises; and (iv) direct subsidies and stipends for beneficiaries.

2. Selection, monitoring, and follow-up of TIs (US\$2.0 million)

This component will finance a series of TI-related activities, including preparation of a roster, selection, oversight, coordination, feedback, redesign, and technical assistance. The preparation of a TI roster will involve financing the preparation of the bidding conditions, the call for proposals from TIs, verification of TI eligibility, general information activities, and consultations. In the training course selection process, the program will finance the technical evaluation of training courses, which will include assessments of the methodologies and techniques specified in the proposals and their relevance. Monitoring, supervision, and feedback activities will include administrative oversight, monitoring of course quality, and feedback. Feedback and technical assistance activities will include measures for expediting the TIs' learning process and disseminating new methodologies and practices in key program areas.

This component will include the following subcomponents: (i) preparation of a roster of TIs and course selection; (ii) monitoring and oversight of TIs; and (iii) feedback and technical assistance.

3. Labor intermediation and information (US\$0.7 million)

This component's objective is to provide program beneficiaries with labor intermediation and information services as a means of reducing the overall cost (in terms of time and accuracy) of matching up young job seekers with positions that become available as a function of demand on the labor market. This effort is expected to reduce the amount of time that individual job seekers are unemployed, employers' recruitment costs, and non-functional staff turnover caused by the placement of people in positions for which they are not qualified.

This component will include the following subcomponents: (i) information activities; (ii) job-search coaching; (iii) job matching assistance; and (iv) technical assistance in connection with the labor intermediation system [Sistema de Intermediación Laboral (SIL)].

4. Evaluation and monitoring (US\$0.8 million)

This component's objective is to evaluate the program's outputs, outcomes, and impacts. These assessments will be conducted during the program's four-year execution period and will provide feedback that will serve as a basis for recommendations for improving the design and impact of the program cycles. It will include the following subcomponents: (i) evaluation of outputs; (ii) evaluation of outcomes; and (iii) evaluation of impacts. When execution begins, the necessary information will be gathered for the construction of a baseline, which will then be used for these assessments.

The Bank's country and sector strategy:

The main objectives of the Bank's strategy with Peru for 2002-2006 are to reduce poverty and promote equity within a context of economic growth. The Bank has identified three areas in which it is now taking coordinated action on a systematic basis: competitiveness and integration, social development, and modernization of the State. The proposed operation will advance in these three areas.

In recent years the Bank has supported vocational training projects quite similar to ProJoven for young people in various countries of the region, including Chile, Argentina, Venezuela, Colombia and Uruguay. In 1994, the Bank supported Chile in the development of a program of this type called Chile Joven. By 1999, a number of countries in the region were implementing pilot versions of this model, in many cases with IDB financing. In some instances, as in

Argentina, the youth program has also been used as a model for the redesign of the country's training system. The evaluations of these programs indicate they have had a positive impact in terms of the beneficiaries' entry into the workforce. Peru's ProJoven project is based on the same pilot version and received support from the Bank during its design stage. Ultimately, however, the country chose other funding sources for the program that involved lower finance charges.

**Coordination
with other
multilateral
agencies:**

During this operation's preparation, the project team has kept close track of the progress of other human capital development initiatives, such as the Rural Education Program and the Social Reform Program of the World Bank.

**Environmental
and social
review:**

Environmental considerations: No direct negative environmental impacts are foreseen (paragraph 4.6)

Social considerations: The program will have a positive social impact thanks to the benefits to be derived by the beneficiaries in terms of their participation in the labor force and their income levels. There will also be positive impacts in relation to job quality and reduced occupational segregation for the program participants. Other positive effects will include: improvements in the young people's levels of well-being through, for example, increased self-esteem, the benefit to society of a reduction in delinquency, increased welfare as a result of the greater economic efficiency stemming from reductions in gender-based occupational segregation, and the benefits that the program will bring to the market for training services by introducing higher quality standards and promoting linkages between production enterprises and training institutions.

Benefits:

The program will have an impact on: (i) the economically disadvantaged persons between 16 and 24 years of age who will be its beneficiaries; (ii) the vocational training system and its component institutions, together with the firms that take part in the program's on-the-job training component; and (iii) the operation of the youth segment of the labor market.

The program will have its greatest impact on its direct beneficiaries. The young people participating in the program will become more employable thanks to the resulting improvement in their basic skills, work attitudes, knowledge of the labor market and of existing labor demand, and self-esteem. This, in turn, will result in higher employment rates and income levels for these young people, greater access to better jobs, and longer periods of employment in those jobs. These impacts will, in their turn, contribute to lower levels of poverty and social inequality.

The firms taking part in the program will have access to a group of potential employees who possess skills and vocational training that have been specifically tailored to their needs and who have a suitable attitude about their occupational performance. Training institutions will be able to develop more relevant courses by designing them on the basis of the actual demand generated by potential employers in different areas of the labor market. This entire process, which will also be supported by a labor intermediation system, will enhance the labor market's efficiency by generating a closer and better link between labor demand and supply.

Risks: The main challenge to be met during the program's execution is to maintain proper targeting of the beneficiary group and to select TIs that meet clearly defined technical requirements. The corresponding requirements and regulations are discussed in general terms in the program description and are specified in the program's Operating Regulations (OR). Raising the number of beneficiaries above the levels served thus far by ProJoven could introduce another element of risk for this program's execution. Design improvements and specific technical assistance activities aimed at improving ProJoven's performance are expected to allow coverage to be expanded effectively and efficiently.

Special contractual clauses: The borrower must fulfill the following conditions precedent to the first disbursement:

The Operating Regulations agreed upon with the Bank must have entered into force (paragraph 3.4).

The program's Consultative Council must have been established (paragraph 3.2).

Poverty-targeting and social sector classification: This operation qualifies as a social equity enhancing project as described in the indicative targets mandated by the Bank's Eighth General Increase in Resources (document AB-1704). This program also qualifies as a poverty-targeted investment (PTI). The borrowing country will not be making use of the 10% in additional financing (paragraph 4.4).

Exceptions to Bank policy: Since the program activities to be financed in this operation will primarily be conducted within the five scheduled program cycles, a revolving fund of up to 10% of the loan amount will be required. This fund will be used to cover the disbursements related to each cycle, which will include a complete program series consisting of: TI training, on-the-job training, liaison activities, and oversight.

Procurement: The courses to be included in Component I will be provided by TIs that have gone through a prequalification process. All the prequalified TIs, which will be placed on the TI roster, will be invited to submit proposals.

Procurement of the corresponding goods and services and recruitment of consultants will be conducted in accordance with the relevant Bank procedures and policies. Related goods and services valued at the equivalent of US\$250,000 or over will be procured by means of international competitive bidding procedures. Consultancy services valued at more than the equivalent of US\$200,000 will be contracted by means of an open international call for proposals. The procurement of goods and consultancy services for amounts below those levels will be governed by the relevant national legislation, provided that it is compatible with the Bank's principles and policies. The project will not involve the construction of public works.

I. FRAME OF REFERENCE

A. Socioeconomic framework and labor market conditions

- 1.1 Between 1991 and 1997, Peru made significant progress in stabilizing its economy and implementing structural reforms. These advances helped to stimulate economic growth and reduce poverty. Partly as a consequence of the 1998-2001 recession, however, poverty levels began to rise again in 1997. At present, 55% of the population is living in poverty, 24% is living in extreme poverty, and 42% has at least one basic need that is going unmet. Since early 2003, unemployment has been trending downward, but is still fairly high (9.1% as of June 2003). Unemployment rates for women and for young men are higher than the rates for men over 25 years of age.
- 1.2 The economy has performed well during 2003. Gross domestic product (GDP) registered a 4.8% growth rate for the first eight months of the year; the inflation rate continues to be one of the lowest in the region; the country has no more than a small deficit on its balance-of-payments current account; and its country risk is also one of the lowest among the Latin American economies. The economy does, however, face challenges in two areas: the consolidation of its fiscal stability, and the achievement of sustained growth over the long term.
- 1.3 Instability in the labor market increased substantially during the 1990s. While it is true that the chances of remaining unemployed for an extended period of time declined, the likelihood that people might lose their jobs increased during this period. The percentage of workers with fixed-term or temporary contracts and informal working arrangements has expanded as a result of an increase in non-wage costs. This is why there is so much concern about unemployment and job instability even though the unemployment rate is below the regional average.
- 1.4 Peru's labor market has, overall, a very low productivity rate, and real wages are consequently very low as well. Its low productivity is matched by low-quality jobs that do not provide incentives or resources that would permit workers to obtain a basic minimum of social benefits. This situation diminishes workers' incentives for investing in vocational training and firms' incentives for investing in the human capital of their workers.
- 1.5 Above-average youth unemployment and underemployment rates have persisted over time. The youth unemployment rate (14-24 years of age) for 2001 was 12.4%, compared to 7.9% for the population as a whole, while the youth underemployment rate was 53.1%, compared to 47.6% for the total population.² The vast majority of underemployed youths come from poor households, engage in low-productivity informal activities, have few opportunities to obtain training, are under-educated or under-trained, lack work experience, and are not fully integrated into social

² Monthly statistical report of the Ministry of Labor, 2002.

networks. Because of all of these factors, they are very unlikely to succeed in obtaining a suitable job, and this reduces their chances of escaping from the vicious circle of poverty.

- 1.6 Unemployment among young people and the school-to-workforce transition largely reflect trends in the labor market, and these trends are primarily a function of fluctuations in the demand for labor, changes in relative wages for skilled manpower, and fluctuations in the job supply. On the other hand, the job supply is determined, in part, by workforce quality, which is influenced by the quality of workers' education and training. Given the poor quality of primary and secondary education in Peru, young people's chances of acquiring the types of skills and/or attitudes that will improve their job prospects are closely related to their opportunities for obtaining post-secondary training.
- 1.7 In urban areas, there is a gap between the level of access to training possessed by young people living in poor and non-poor households, and this gap begins to widen after age 20.³ In point of fact, almost half of all non-poor young people between 20 and 24 years of age who reside in urban areas have engaged in some sort of post-secondary training, whereas only 32% of poor persons in this age category have done so. Although vocational training is not a substitute for a quality education, this training gap accentuates the disadvantageous position in terms of job skills occupied by poor youths who are trying to compete in the labor market. In addition, if people become unemployed at an early age or have bad experiences with their first jobs, they tend to have more employment-related difficulties over the long term. Hence the importance of taking steps early on to improve young people's initial experiences in the workforce.
- 1.8 A study dealing with private-sector demand for workers with entry-level skills conducted by the Ministry of Labor and Employment Promotion (MTPE) based on the National Household Survey [Encuesta Nacional de Hogares (ENAH)] indicates that the occupational areas in which labor demand is growing the fastest are the garment and textile industries, management, hotels, and services in general.

B. Human capital development and the vocational training system

1. Education

- 1.9 Although primary education has become virtually universal and coverage at the secondary level has expanded, the quality of instruction remains unsatisfactory, especially for children and youths who attend public and/or rural schools. Students' scores on standardized tests are very low. In a test conducted in 12 Latin American countries, Peru placed second-to-last in scholastic performance.⁴ The substandard nature of instruction is reflected in the labor market, which includes large segments

³ National Household Survey [Encuesta Nacional de Hogares (ENAH)], 1997.

⁴ UNESCO, IDB 1998. Report on Social and Economic Progress in Latin America.

of low-productivity workers. The most recent nationwide evaluation carried out by the Ministry of Education, in 2001, confirms that the educational system's outcomes are unsatisfactory. The educational system therefore fails to act as a mechanism for achieving equality of opportunity and exhibits serious shortcomings in terms of quality.

2. The vocational training system

- 1.10 Technical and vocational training is provided by a very heterogeneous network of institutions. There is no system for building job skills as such, but instead a series of various types of programs and approaches that differ quite markedly in terms of quality. Nor is there any accreditation or certification system to ensure the quality of such institutions and programs. Within the public sector, the network of training institutions include higher institutes of technology [Institutos Superiores Tecnológicos (ISTs)], which offer 2- and 3-year post-secondary courses of study, as well as courses that do not lead to professional certification; Occupational Training Centers [Centros de Entrenamiento Ocupacional (CEOs)], which do not require any prior level of schooling and focus on training unemployed or underemployed youths and adults for jobs in various branches of economic activity; and the technical tracts in what are known as diversified secondary schools [colegios secundarios diversificados]. There are also services at the sector level, such as the National Industrial Training Service [Servicio Nacional de Adiestramiento en Trabajo Industrial (SENATI)], which provides training and staff development courses for workers in the manufacturing sector. In addition, there are programs promoted by the MTPE. According to figures for 1997,⁵ the breakdown for urban youths who had received or were receiving training at that time was as follows: ISTs, 33%; CEOs, 31%; secondary schools, 20%; sector-based services, 5%; and other, 11% (including universities and work centers).
- 1.11 During the 1990s, a number of changes were made in the country's labor laws that had the effect of promoting the creation of job training mechanisms. As a result, the technical training market has expanded, particularly with respect to private training institutes. These changes have not yet had the expected impact, however. On the one hand, there is not yet significant demand for the new youth recruitment mechanisms, while on the other, the growing supply of training services remains out of touch with the production sector's needs and varies greatly in quality. These factors, in conjunction with the training market's general failure to modernize, has made it difficult for young people to acquire the skills they need to improve their position in the labor market. Although there is an ample supply of training programs, they suffer from serious problems in terms of relevance and quality. The marked heterogeneity of the quality of these training services in both public and private institutions is another factor.

⁵ National Household Survey [Encuesta Nacional de Hogares (ENAH)], 1997.

- 1.12 There is, thus, a lag between training-service supply and demand. On-the-job training programs are the most successful approach for making young people more employable, but these types of training opportunities are scarce. What is in plentiful supply, on the other hand, is training provided in institutions that yield very low returns over the long term.⁶ In these sorts of institutes, the approaches used generally do not prepare the students for the working world and tend to be based on the young people's preferences or on what the instructors know how to teach.
- 1.13 There is, in addition, virtually no way for parents, young people, or business enterprises to know how good any particular training institute is. Accreditation standards are not clearly defined, supervisory and monitoring mechanisms are very inefficient, and a suitable certification system for ensuring that training institutions meet minimum standards of quality is not in place. Links between the job training system and companies are also insufficient. This results in a great deal of inefficiency, since students and workers are not receiving the training they need to meet the requirements of the production system. All these factors reduce young people's chances of finding a job, result in longer periods of unemployment, and make business firms less competitive.

3. The ProJoven program

- 1.14 In 1996, at the initiative of the MTPE and with IDB support, the Government of Peru established the ProJoven youth labor training program. The aim of this program is to help economically disadvantaged youths gain entry into the formal labor market by providing them with training and opportunities to acquire work experience that is based on the needs of the production sector. An underlying objective has been to galvanize the training market by fostering competition among the various training providers.
- 1.15 This program, which is currently in operation, funds both theoretical and hands-on training for a specified target population. ProJoven thus operates as a second-tier agency, since it does not provide training services directly but instead invites training institutions (TIs) to participate in public tenders designed to permit training courses to be selected on the basis of technical quality and cost criteria. The TIs go through a prequalification process that covers such aspects as their experience, human resources, financial management and solvency, corporate links, and infrastructure. ProJoven's operational strategy is based on a demand-side scheme in which the responsibility for the courses' design is shared by the TIs and companies as part of a coordinated effort to ensure their relevance. The TIs must also ensure that internships in such companies are available to the program's beneficiaries.
- 1.16 On the demand side, the procedure used by the program to target its beneficiaries begins with the accreditation of young people interested in participating. A targeting form is used for this purpose, which measures variables that can be used

⁶ Saavedra and Chacaltana, 2001

- to help determine the young person's socioeconomic status. If the form yields an appropriate score, then the young person is accredited as a potential participant in ProJoven. The next step is to match up the preferences of the accredited (eligible) youths with the available courses; these young people are then sent to sign up with the corresponding TIs. In some cases, the TIs conduct a final screening based on a test designed to measure basic knowledge in order to ensure that the candidates meet the minimum requirements in this respect. Persons who are not accepted can apply for other courses that do not require a basic level of knowledge.
- 1.17 On the supply side, the first step is the preparation of a roster of TIs that meet the basic quality standards defined by the program. This roster is then used to organize a public call for proposals. TIs then submit proposals in line with the program's specifications. One very important aspect of the evaluation process aimed at ensuring that the courses are relevant (i.e., the skills they impart are in demand in the labor market) is each TI's commitment to secure a paid internship in a firm in its area for every student that it trains.⁷
- 1.18 The technical training phase for the program's beneficiaries is conducted directly by the TIs and lasts for an average of three months. This phase is financed in its entirety by ProJoven and includes a weekly stipend for each beneficiary.⁸ Upon completion of the technical phase, the beneficiaries undertake an internship in a business enterprise. These internships are governed by a youth labor training contract. The internships also last three months, and during this time the firms pay an amount approximately equal to a monthly minimum wage.⁹
- 1.19 The program's target group consists of poor young people who have received 480 hours of job training or less and who are unemployed or underemployed. Since its inception in 1997, the program has benefited 30,231 youths through the participation of 379 TIs offering a total of 1,585 courses in nine different public calls for proposals in Lima and in eight other cities in the country (Arequipa, Trujillo, Chiclayo, Piura, Cuzco, Huancayo, Chimbote, and Iquitos).¹⁰ During this stage, approximately US\$17 million has been invested, with around 40% of this sum being drawn from local resources and the rest from international cooperation agencies. In the on-the-job training phase, a total of more than 30,000 young people have received technical training, and 79% have received on-the-job training (although only 56% of these 30,000 youths have completed the three-month internship under the terms of a youth employment arrangement); 3% found jobs

⁷ This system ensures that the firms' actual demand for workers will be detected, since the firms must pay the cost of the training provided during the internship.

⁸ The stipend amounts to around US\$1.50 per day for trainees in Lima and US\$1.00 per day for trainees elsewhere in the country; an additional subsidy of about US\$1.00 is paid to women in the program who have children.

⁹ The minimum monthly wage is equivalent to approximately US\$120.

¹⁰ The eleventh cycle is currently being conducted in three cities (Lima, Cuzco and Piura), with acceptance of the proposals made by 29 TIs for 128 courses to be attended by 2,387 youths.

immediately upon completing the technical training phase, 11% could not be placed in firms by the TIs, and 7% dropped out of the program. The labor-market entry rate for the beneficiaries who did complete both phases of the training program is approximately 65%. It should be noted that, to date, 54% of ProJoven's beneficiaries have been women.

- 1.20 Ever since it was first designed, ProJoven has included an impact assessment component that has been refined over the years. This has been one of the first programs in Peru to use modern evaluation techniques and control groups and to make an ongoing effort to improve its impact measurements. This effort has involved the compilation of social and employment data from sample groups of beneficiaries and control groups. This information has then been used to evaluate the various program cycles. The most recent outside assessment, which was based on information gathered before the start of the sixth cycle's training courses and six months after those courses were completed, detected the following impacts:¹¹ (i) the employment rate for the beneficiaries was 6% higher than it was for the control group; (ii) the program beneficiaries' incomes were 18% higher than the control group's; (iii) the program's participants worked 5.5% more hours than the members of the control group; (iv) the program participants had better jobs (measured in terms of incorporation in the formal sector and social security and benefit coverage); and (v) the program generated a statistically significant reduction in gender segregation. In addition, the program led to an increase in youth employment in medium-sized and large companies, together with a consequent reduction in employment in microenterprises. The evidence presented in a recent impact assessment¹² suggests that the program's effects have lasted more than 18 months after the hands-on phase's completion. In fact, although its effects have waned to some extent, 18 months after the training's end, they were still substantial. A cost/benefit analysis was conducted in order to gauge the program's social rate of return. The pessimistic, conservative, and optimistic scenarios used in this evaluation yielded internal rates of return of 13%, 20%, and 36%, respectively.

4. The labor intermediation system

- 1.21 In 1997 a program for the modernization of the labor intermediation system [Sistema de Intermediación Laboral (SIL)]¹³ was created. This program's aim is to develop means of matching up employment supply and demand. Its objective is to ensure that workers (and particularly unemployed persons with intermediate and operational skill levels) have access to timely and efficient labor intermediation, information, and advisory services by modernizing and decentralizing the national employment service. The program, which is now underway, is structured on the

¹¹ Ñopo, Robles y Saavedra, "Una medición del impacto del Programa de Capacitación Laboral Juvenil Projoven." Grupo de Análisis para el Desarrollo (GRADE), 2002.

¹² Ñopo y Saavedra, 2003.

¹³ Responsibility for the Labor Intermediation System falls to Red CIL-PROempleo.

basis of a network composed of 17 labor intermediation centers [Centros de Intermediación Laboral (CILs)], seven of which are also CEOs,¹⁴ and 10 public and private institutions (municipalities, churches, universities and nongovernmental organizations).¹⁵ The labor intermediation system has had satisfactory results to date, with a healthy percentage of placements at fairly low unit costs per person placed.¹⁶ The CILs operate as decentralized units, maintain a close connection with the local community, and offer an integrated, flexible array of services. Meanwhile, the SIL has been successful in pooling public and private resources. As a result, the CILs have complemented rather than replaced private labor information and liaison agents.

- 1.22 The SIL has been found to have substantial impacts on the career paths of job seekers in the cities that it covers. In a sample group of system beneficiaries, it was found that, one year after the beneficiaries' placement, their monetary returns surpassed those of workers who had not availed themselves of the SIL.¹⁷ One of the reasons for this successful outcome is that the program targets poor sectors of the population and is linked with local training institutes (CEOs, ISTs, NGOs, municipalities, etc.). The SIL has not made a special effort or taken specific steps to support the ProJoven program, however. The SIL is currently an MTPE program funded by the Swiss Agency for Development and Cooperation (SDC) whose activities and operations are governed by a framework cooperation agreement between the MTPE and the SDC.

5. Other programs

- 1.23 The CAPLAB labor training program is an instructive initiative for the provision of vocational training to lower-income groups. This program trains young people using a job-skills approach based on short training modules, as well as training CEO trainers. The program, which is administered by the MTPE with the support of the SDC, seeks to align the supply of job training services with the needs of production enterprises and demand on the labor market. The SIL provides CAPLAB with statistical information on the labor market's needs and job opportunities. CAPLAB also draws up profiles that identify the specific requirements of given occupations and positions. The drafting of these job profiles is a coordinated venture undertaken by teachers, labor representatives, employers, local authorities, and members of local networks. These profiles are then used as a basis for designing curricula that will ensure that the corresponding training modules are relevant. The program also includes an internship stage, and trainers are given the opportunity to take refresher training courses in various firms so that

¹⁴ With the support of the CAPLAB vocational training program, which is working to strengthen ties between the CEOs and businesses.

¹⁵ The program is funded by the Swiss Agency for Development and Cooperation (SDC).

¹⁶ The placement rate amounts to around 27% of supply, with a unit cost of US\$17.70 per person placed.

¹⁷ Assessment conducted by Chacaltana, 2002.

they can keep up to date. Mention should also be made of the BONOPYME program, which funds a support package for microenterprise owners and employees that includes training activities.

C. The Bank's strategy with the country and its coordination with other multilateral agencies

- 1.24 The main objectives of the Bank's strategy with Peru for 2002-2006 are to reduce poverty and promote equity within a context of economic growth. The Bank has identified three areas in which it is now taking coordinated action on a systematic basis: competitiveness and integration, social development, and modernization of the State. The proposed program fits in well with two other labor training operations: the Secondary Education Program [Programa de Educación Secundaria (1237/OC-PE)], which is now underway and includes a subcomponent devoted to improving the quality of technical/vocational training services; and the recently approved Competitiveness Reform Program (PE-0239), which involves a series of measures in crucial policy areas relating to the country's competitiveness, including labor training. The conditions set forth in the policy matrix for that sector program include the establishment of an accreditation system for the higher-level technological and pedagogical institutes and the introduction of a pilot job-skills certification program for the clothing industry. During the preparations for the youth labor training program described in this document, the project team has also kept close track of the progress of other human capital development initiatives, such as the Rural Education Program and the Social Reform Program of the World Bank.

D. The Bank's strategy in the sector

- 1.25 In recent years the Bank has supported vocational training projects quite similar to ProJoven for young people in various countries of the region, including Chile, Argentina, Venezuela, Colombia and Uruguay. In 1994, the Bank supported Chile in the development of a program of this type called Chile Joven. By 1999, a number of countries in the region were implementing pilot versions of this model, in many cases with IDB financing. In some instances, as in Argentina, the youth program has also been used as a model for the redesign of the country's training system. The evaluations of these programs indicate that they have had a positive impact in terms of the beneficiaries' entry into the workforce. Peru's ProJoven project is based on the same pilot version and received support from the Bank during its design stage. Ultimately, however, the country chose other funding sources for the program that involved lower finance charges.

E. The program's strategy

1. Rationale for the program

- 1.26 The reasons for participating in the new program are as follows: (i) given the poor quality of primary and second education,¹⁸ the acquisition of job skills and/or work attitudes that will improve young people's prospects in the labor market is closely related to their chances of gaining access to post-secondary training; (ii) the available evidence¹⁹ indicates that many economically disadvantaged youths do not have access to this type of training, while those who do have access avail themselves of that opportunity less frequently than their more affluent peers and attend institutions of a lower quality; (iii) the assessments of ProJoven's impact indicate that it has had a positive outcome in terms of entry into the labor market and income levels; (iv) the ProJoven program has employed a scheme that forges a link between training institutions and the production sector, thereby helping to ensure the relevance of the training courses and providing a model that could be applied to the overall job-training system; and (v) the ProJoven program has trained around 30,000 youths, but the universe of potential beneficiaries numbers 428,000, and there is thus a great deal of scope for its expansion.
- 1.27 The proposed program will combine vocational instruction with on-the-job training and labor intermediation services designed to increase the beneficiaries' employability. The program will therefore have the same fundamental objectives as ProJoven, but its coverage will be broadened and design improvements will be made with a view to increasing its impact. The program is slated to train 47,000 youths over its four years of execution, since it is estimated that this is how many training spots and internship (and possibly job) opportunities will be available for program beneficiaries during that time span.

2. Lessons learned

- 1.28 Vocational training in Latin America has taken a quite traditional, supply-side approach marked by the following characteristics: (i) programs are designed, implemented, and evaluated from the training institutions' perspective; (ii) the way in which training services are organized in terms of areas of specialization and types of occupations are not aligned with the existing demand on the labor market; (iii) the programs are rigidly structured, inasmuch as training is provided in set complete single-entry single-exit modules; (iv) little emphasis is given to the role of work experience in increasing trainees' employability; and (v) the teaching methods that are used revolve around the trainer as the possessor of knowledge which s/he then transmits to students, who play a passive role.

¹⁸ In the comparative test administered to 15 year olds by the Programme for International Student Assessment (PISA) in 2001, which measures skills and knowledge in the areas of reading, mathematics, and science, Peru placed 41st out of 41 countries in the three areas that were evaluated.

¹⁹ ENAHO, 1997.

- 1.29 Separating the funding of training activities from the actual provision of training results in greater efficiency and transparency. In addition, competition among private job-training providers and the requirement that they link up their technical training with internships in actual places of business generate the right type of incentives for creating the closer links between training and business firms' needs that have typically been missing in the region. The competitive operation of private training providers should be complemented, however, by the design of a public regulatory structure that will be responsible for setting and applying relevance and quality standards to be met by training programs. These programs should also be integrated with job placement and labor intermediation mechanisms, since the ultimate aim of training is to increase beneficiaries' employability. Ministries of labor appear to be the most appropriate government bodies to administer the network of public institutions involved in this area—inasmuch as their work is more closely related to the labor market and business community than that of other ministries and agencies—but care should be taken to ensure that the targeting of beneficiaries is based on technically valid and transparent criteria. It should also be noted that requiring payment for these services (for beneficiaries who are trained and/or placed in jobs) helps ensure that incentives are headed in the right direction.
- 1.30 On average, approximately 35% of the beneficiaries of ProJoven fail to complete the on-the-job training phase. An evaluation of this situation indicates that the training yields returns only for those youths who complete the entire program²⁰ (both phases of training). Successful completion of the on-the-job training phase thus increases the graduates' chances of finding suitable jobs. This, in turn, points to the importance of making improvements and including incentives in the program for the beneficiaries to complete the on-the-job training phase.
- 1.31 Other lessons that should guide the design of youth labor training programs are: (i) effective targeting of program beneficiaries is a crucial element in expanding program services and/or the number of beneficiaries; (ii) the steps taken to forge links between the TIs and the business community should be used as a model for the general training system, and links should therefore also be established between these programs and the agencies and ministries involved in the nationwide training network, especially the Ministry of Education; (iii) funding for these programs should be contingent upon a rigorous, systematic evaluation that will provide a basis for a flexible redesign of the program's content, training methods, and target group; and (iv) one of these programs' shortcomings is the lack of an institutional learning process in terms of the recognition of individual TI's performance and the relevance of course offerings.

3. Program design

- 1.32 Bearing in mind the lessons learned, the new program's design will introduce the following improvements: (i) mechanisms for enhancing training services' quality

²⁰ Chacaltana, 2003.

and impact based on closer ties among the program, the TIs, and participating companies; (ii) the introduction of labor information and liaison services to boost these youths' job placement rate; (iii) the reinforcement and improvement of existing targeting procedures; and (iv) the intensification and improvement of systematic evaluations of the program's impact.

a. Closer ties between the program and TIs

- 1.33 **Diagnostic appraisal.** The program's development of a relationship with the TIs and, through them, with businesses is an ongoing process that includes a number of key sub-processes, such as: preparation of a roster, a public call for proposals, contracting, execution and oversight, payment, and evaluation. The nature of these sub-processes hinges upon what the program expects from the TIs. Thus far, the central stated purpose of ProJoven in relation to the TIs has been for them to offer training courses that include a technical training phase and an on-the-job training phase in accordance with predetermined standards. In practice, however, many of the young people who complete the technical phase of the training course do not go on to complete the on-the-job phase. The new program will place emphasis on ensuring that the TIs increase the percentage of youths completing the on-the-job phase of the training course to a target figure of 90%. To that end, the following measures will be adopted.
- 1.34 **Payment system.** Payments will be made to the TIs in two stages. The first 50% of their fee will be paid upon successful completion of the TI training phase and the other 50% will be paid upon completion of the on-the-job training phase. This will act as a strong incentive for the TIs to place the young trainees in companies and monitor their fulfillment of this phase of the training.
- 1.35 **Youth training agreements.** To date, the on-the-job training phase has been conducted under the terms of youth training agreements.²¹ This type of arrangement requires an effort on the part of the employing firms, since they must pay the trainees a minimum monthly wage for full-time work. This approach has the advantage of providing a very clear signal as to potential labor demand for given occupations, but its disadvantage is that it acts as a disincentive for participation in the program for many companies. The program will therefore provide a second option, whereby trainees can work for shifts of a minimum of six hours per day, although still under the terms of a youth training agreement. In order to maintain this option only as a second-choice alternative to a full-time youth training agreement, it has been designed in such a way that the TIs will continue to have a strong incentive to place the trainees in full-time positions. This is accomplished by making the payment received by the TIs proportional to the number of hours worked, thereby rendering the second option less profitable for them.

²¹ In a very few cases, employment contracts have been used.

- 1.36 **Preparation of a TI roster.** There is some evidence that a number of underperforming TIs continue to offer courses. This state of affairs clearly has a negative influence on the program's execution, its dropout rate, and its ultimate impact (positioning in the labor market and wage levels). One way of rectifying this situation is to implement mechanisms that will provide feedback for public calls for proposals based on the outcomes of earlier training courses. This will allow the program to maintain its links with the most successful TIs while ceasing to work with those that are not up to standard. The program will therefore emphasize the following principles: (i) feedback mechanisms should be linked to the roster of training service providers; (ii) feedback procedures should be straightforward but should incorporate the key variables involved in supplying these training services; and (iii) feedback mechanisms should be designed to provide information about TIs to program candidates and participating companies.
- 1.37 **Monitoring labor practices.** Monitoring the on-the-job phase of the training program provides a means of enhancing the beneficiaries' chances of finding a job. Monitoring will be conducted on the basis of: (i) a team effort with program participants, guided by a professional labor specialist; and/or (ii) a systematic review of the status of these youths, to be conducted in conjunction with the company's internship supervisor.
- 1.38 **Technical assistance for ProJoven.** The ProJoven team responsible for monitoring the TIs will be backstopped with technical assistance aimed at strengthening the team's capability to implement the modifications and improvements discussed above.

b. Labor information and liaison services

- 1.39 **Diagnostic appraisal.** The current model of the SIL labor intermediation system offers a promising opportunity for improving the linkage between corporate labor demand and the supply of young trainees graduating from the program. At present, however, the SIL is not involved in ProJoven and does not offer services tailored to the types of young people who are beneficiaries of ProJoven.
- 1.40 The SIL will provide a predetermined sequence of information activities, job-search coaching, and job matching services to the program in order to help its beneficiaries position themselves in the labor market. The program will pay the SIL for these services.
- 1.41 The main reason for providing labor information services will be to familiarize young people with the program as a means of improving the self-targeting process. The orientation or advisory services will seek to help the participants become more skillful in applying autonomous, effective job-seeking strategies. Job matching or liaison services will be aimed at helping to find a good fit between program graduates and specific vacancies in the labor market.

c. Measures to strengthen and improve targeting

- 1.42 **Diagnostic appraisal.** ProJoven's targeting strategy has been very appropriate, but there is still room for improvement in some areas. For example, in the course of ProJoven's targeting process it has been found that many candidates have not fully understood what the TI and on-the-job phases of the program involve. In some cases this has resulted in the formation of unrealistic expectations, which have ultimately been reflected in the withdrawal of participants while the program is still under way. Another challenge is to find a way of expanding coverage without increasing the rate of targeting errors.
- 1.43 With support from the SIL, candidates will be given a more thorough orientation designed to provide them with more and better information about the program, generate a more efficient self-selection process, and reduce the program's drop-out rates. Steps will also be taken to reinforce ties between the program and community organizations. The targeting mechanism will be used to improve the candidate registration forms and the procedures for monitoring and checking the information provided with a view to pinpointing the candidates that actually match the target group's criteria. The accreditation criteria that exhibit the largest margins of error will also be reviewed, and the number of daily visits will be raised.

d. Evaluation

- 1.44 **Diagnostic appraisal.** ProJoven has shown an outstanding commitment to the assessment of program impacts. These assessments have been conducted using a non-experimental design that has permitted it to undertake an exhaustive search for potential control-group participants. As a result, it has been able to locate a group of young people who are very similar to the pool of participants in terms of gender, age, poverty, employment status, and level of education. More can still be done, however, to achieve a better fit between beneficiaries and their control groups and thus improve the accuracy of these impact assessments. In addition, no evaluation has yet been made of the value added by the training received in TIs and in business enterprises. In the absence of such an evaluation, it has been assumed that the increase in wages and employment of these young people is an adequate indicator of the training process' quality.
- 1.45 **Evaluation of outcomes.** In order to determine how effective this training initiative is, its outcomes will be assessed in order to gauge the quality of the training and measure how much value it has added in terms of skill levels. This will not only provide feedback that can be used to improve the program, but will also supply valuable inputs for the formal education system, since a large percentage of the ProJoven beneficiaries have completed their primary and secondary schooling.
- 1.46 A new test will be used to measure the value added by the job training imparted in TIs and in companies in terms of job skills and work attitudes. The evaluation will cover basic and generic job skills, including the types of cross-cutting competencies

that enable people to be efficient and effective, to adapt to new demands on the job, and to work as part of a team.

- 1.47 **Evaluation of impact.** A non-experimental design will continue to be used for assessing program impacts, but modifications will be made to reduce the bias generated by unobservable characteristics associated with the matching of the beneficiaries and the control group. The impact on program beneficiaries will continue to be evaluated on the basis of income levels, time on the job, reduction in gender inequities, and job quality; the duration of these impacts over time will also be evaluated. At the start of the program, baseline information will be gathered and will be disaggregated by gender so that the impact evaluations can take possible differences between male and female beneficiaries into account. Although ProJoven has not compiled information on ethnic/cultural diversity among its beneficiaries, the new program will gather such information based on questions that have been incorporated into the national census form regarding: (i) ethnic/cultural origin, and (ii) language of schooling.

II. THE PROGRAM

A. Objectives and description

- 2.1 The overall objective of this four-year program is to help provide economically disadvantaged young people between the ages of 16 and 24 with access to the formal labor market.²² This is to be accomplished by means of specific activities designed to provide vocational training and work experience in conjunction with labor intermediation, job-search coaching and information services that will meet the business sector's and labor market's requirements. The program is also intended to enhance the competence and market efficiency of training institutions by promoting greater interaction between those institutions and businesses in the production sector. The program's specific objectives are to help raise the labor participation rate, job quality, and wage levels of young people in the target group.
- 2.2 Helping young beneficiaries gain entry into the labor market involves enhancing their employability, with this being understood as "the set of qualities that enables a person to obtain and keep a job and to adapt to its evolving demands."²³

B. Program structure

- 2.3 The proposed program has been structured into four components:

COMPONENT I	COMPONENT II	COMPONENT III	COMPONENT IV
Vocational instruction in TIs and businesses	Selection, monitoring and follow-up of TIs	Labor liaison and information	Evaluation and monitoring
IDB: 14.8 million Local: 0.9 million Total: 15.7 million	IDB: 2 million Local: 0 Total: 2 million	IDB: 0 Local: 0.7 million Total: 0.7 million	IDB: 0.7 million Local: 0.1 million Total: 0.8 million

1. Component I. Vocational instruction in TIs and businesses (US\$15.7 million)

- 2.4 This component's objective is to provide vocational instruction to program beneficiaries in training institutions (TIs) and businesses. The training will last approximately six months (three months in the TIs and three months in business firms) and will offer technical options defined by the program based on the availability of on-the-job trainee positions in business enterprises. This procedure will ensure that the training is aligned with demand in the production sector. The TIs will be responsible for placing beneficiaries in companies and ensuring that the internships are completed. This hands-on phase of the vocational training exercise

²² The formal labor market is understood as referring to workers whose access to social protection measures is safeguarded by labor laws.

²³ Sulmont, 1986.

will be conducted in accordance with an employment agreement, an employment contract, or an internship arrangement.

- 2.5 This component will finance training activities (payments to TIs), stipends and subsidies for beneficiaries during the period they receive instruction in TIs to cover their transport costs and meals. It will also pay for medical insurance during the trainees' participation in the program. It will include the following subcomponents: (i) targeting of beneficiaries; (ii) vocational training in TIs; (iii) on-the-job training in business enterprises; and (iv) direct subsidies and stipends for beneficiaries.
- 2.6 The program beneficiaries will be economically disadvantaged²⁴ young men and women between the ages of 16 and 24 who have little or not work experience, who are unemployed, underemployed²⁵ or not part of the economically active population, who may or may not have completed their secondary education, and who have received 480 hours of labor training or less. In the course of the targeting process, steps will be taken to inform candidates about the program as a means of promoting an initial process of effective self-selection and accredit eligible candidates who want to sign up for the program. Potential beneficiaries' eligibility will be determined by assigning a score to each candidate based on his/her family group's basic unmet needs (UBN) and the amount of vocational training they have received. These scores will be filed, and the data in these files will be checked on a sampling basis during each program cycle.
- 2.7 The vocational courses of instruction provided by TIs will last approximately three months. They will include the courses whose technical aspects are most appropriate for the specific sector of production being targeted and should be paired up with on-the-job training in business enterprises during the following three months. The courses will cover basic or generic competencies as well as specific skills. An estimated 2,350 courses to train approximately 45,600 youths (97% of the program's beneficiaries) are planned. In order to qualify for consideration, all proposals must include an on-the-job training component and must identify the business enterprise in which that training would take place. Payments to TIs will be contingent upon fulfillment of their obligation to place youths in internships; thus, a significant percentage of their fee (50%) will not be paid until the youths in question have completed their internships.
- 2.8 On-the-job training will take place in firms whose activities are linked to the technical subjects that the trainees will have studied beforehand in the TIs. These institutions will also be responsible for placing these young people in the various companies and monitoring their performance there. Employers will be expected to provide the facilities needed for hands-on training in their companies. These firms will also pay the trainees the equivalent of the minimum wage for full-time work under the terms of a youth training agreement. It is estimated that 85% of the young

²⁴ Poverty as measured by each youth's household's UBN.

²⁵ People are defined as underemployed if they work less than a full workday.

people who complete their course of training in TIs will go on to complete their internships (approximately 38,750 persons). In order to meet this target figure, consideration has been given to the possibility of allowing the TIs to place trainees in firms where they will work a shorter workday (but no less than six hours per day). If this option is chosen, then payment to the TI will be proportional to the number of hours worked by the beneficiary.

- 2.9 Financing will also be provided to cover the cost of a stipend for participants to cover their transport costs and meals during the three months that they are attending TIs and to pay for medical insurance during their participation in the program. Mothers taking part in the program will also receive a subsidy. Accident insurance during the trainees' internships will be paid by the participating firms. The stipend to be paid per class attended will amount to approximately US\$1.40 for the participants in Lima and US\$0.80 for trainees outside of Lima. Additional subsidies to mothers participating in the program will be equivalent to US\$1.10 in Lima and US\$0.80 elsewhere.

2. Component II. Selection, monitoring, and follow-up of TIs (US\$2 million)

- 2.10 This component will finance a series of TI-related activities and will include the following subcomponents: (i) preparation of a roster of TIs and course selection; (ii) monitoring and oversight of TIs; and (iii) feedback and technical assistance.
- 2.11 The activities entailed in preparing a TI roster will involve financing the preparation of the bidding conditions, the call for proposals from TIs, verification of TI eligibility, general information activities, and consultations. The TIs that are placed on the roster will receive a score based on an evaluation of institutional factors and their performance. The institutional evaluation will consider background information on the TIs' human resources and prior experience together with the following elements: (i) methodologies and practices for developing basic, cross-cutting competencies; (ii) methodologies and practices for developing links with the business community; and (iii) methodologies and practices for limiting the number of students who drop out. The performance evaluation will weigh the TIs' success in past training cycles.
- 2.12 In the training course selection process, the program will finance the technical evaluation of training courses, which will include assessments of the methodologies and techniques specified in the training proposals and their relevance. In awarding a contract for a given course, both the TI's score and the course's score will be taken into account. The main criterion for course selection will be the proposals' relevance to labor demand in the production sector and the technical relevance of the course to that sector.
- 2.13 Monitoring, supervision, and feedback activities will include administrative oversight, monitoring of course quality, and feedback. Administrative oversight will include monitoring performance to verify that the TI courses and the

internships are actually completed by the beneficiaries under the terms and conditions agreed upon between the program and the TIs. In relation to course quality, oversight will entail monitoring course content and methodologies. Feedback will be provided via workshops held for the purposes of: (i) learning about and disseminating practices identified during the program's execution that tend to generate "virtuous circle" effects; and (ii) identifying and resolving any differences that may have arisen between the TIs and the program executing unit (PEU) during implementation, specifically regarding problems in relation to targeting, administrative matters, the instruments used (bidding conditions and forms), and oversight. Oversight and monitoring of on-the-job training activities are also to be undertaken.

- 2.14 Feedback and technical assistance activities will include measures for expediting the TIs' learning process and disseminating new methodologies and practices in key program areas. Potential subject areas to be addressed by TIs could include: (i) appropriate methodologies for developing a skills-based curriculum, with emphasis on basic, cross-cutting competencies; (ii) methodologies for forging links with the private sector; and (iii) methodologies and practices for reducing dropout rates, and vocational orientation methodologies and content. Dissemination activities will include: (i) studies on best practices in these subject areas, which will then be used to prepare publications (methodological and practical handbooks) for distribution; and (ii) practical, informational, or socialization workshops at the national level. This component will also cover technical assistance for personnel in the unit responsible for prequalification and registration procedures for ProJoven. This assistance will be aimed at preparing the staff of this unit to perform the new duties they will be asked to undertake in connection with the program's work with vocational training providers.

3. Component III. Labor intermediation and information (US\$0.7 million)

- 2.15 This component's objective is to provide program beneficiaries with labor intermediation and information services as a means of reducing the overall cost (in terms of time and accuracy) of matching up young job seekers with positions that become available as a function of demand on the labor market. This effort is expected to reduce the amount of time that individual job seekers are unemployed, employers' recruitment costs, and non-functional staff turnover caused by the placement of people in positions for which they are not qualified.
- 2.16 Component III will finance activities designed to inform young beneficiaries about the nature of the program, advisory services to assist participants in applying strategies for undertaking an autonomous and effective job search, and liaison (job matching) and information activities for these young people in order to improve their chances of finding work. The activities will be divided into the following subcomponents: (i) information activities; (ii) job-search coaching; (iii) job matching assistance; and (iv) technical assistance in connection with the SIL.

- 2.17 The first subcomponent covers activities aimed at informing beneficiaries about the program in order to contribute to a more efficient self-selection of program resources. The objective here is to ensure that candidates applying to the program are doing so in an informed, responsible manner and to discourage applications from youths who are simply interested in obtaining access to an educational venue, receiving the stipend, and/or engaging in a peer-group experience.
- 2.18 These young people will be furnished with information on courses, objectives, phases, and the terms and conditions of the program with a view to adjusting their expectations and avoiding later disappointments or allegations of mistreatment or abuse. The basic messages to be transmitted are: (i) the program is designed to help young people position themselves in the labor market rather than simply being a training course; and (ii) the on-the-job training phase consists of an actual job with set working hours rather than being an employment “rehearsal”.
- 2.19 The job-search coaching subcomponent covers activities aimed at preparing program beneficiaries to pursue an effective job search by drawing up a résumé, plotting out a job-search strategy, and, in general, fostering the acquisition of the competencies needed to obtain employment. The job-matching subcomponent encompasses the activities involved in helping to direct program graduates toward the most suitable jobs available.
- 2.20 Component III will also finance technical assistance for the SIL in gearing its services to the beneficiaries of this program. More specifically, the SIL will receive technical assistance in tailoring its services for groups in the population that are at a higher risk of unemployment or underemployment and for disadvantaged sectors.

4. Component IV. Evaluation and monitoring (US\$0.8 million)

- 2.21 This component’s objective is to evaluate the program’s outputs, outcomes, and impacts. These assessments will be conducted during the program’s four-year execution period and will provide feedback concerning its activities. This information will serve as a basis for recommendations for improving the design and impact of the program cycles. It will include the following subcomponents: (i) evaluation of outputs; (ii) evaluation of outcomes; and (iii) evaluation of impacts. When execution begins, the necessary information will be gathered for the construction of a baseline, which will then be used for these evaluations.
- 2.22 Component IV will finance the monitoring and evaluation of the performance of activities/achievement of targets (outputs) pursued with the help of program financing, such as: courses conducted, beneficiaries trained in TIs and in businesses, and beneficiaries provided with labor intermediation services.
- 2.23 This component also includes financing for the evaluation of program outcomes, such as: level of basic and generic competencies attained, beneficiaries’ work attitudes, and the level of services delivered by the labor intermediation system. A

test will be designed to measure generic, cross-cutting competencies and will be administered to a sample group of beneficiaries from at least two program cycles. This test will also be analyzed with a view to providing feedback for the design of subsequent cycles. In order to gauge the quality of service delivered by the SIL, funding will be supplied for a client satisfaction survey of a sample group of youths from two program cycles.

- 2.24 The acquisition of basic competencies will be evaluated by assessing two observable, measurable behaviors: the ability to understand and follow written, oral, and symbolic instructions; and the ability to solve the types of arithmetic problems that arise on a daily basis. Behaviors based on generic competencies that will be considered will include: work planning and organization, health and safety, collaboration and teamwork, responsibility and interest, attendance and punctuality, pace of work (time management to produce final outputs), and work quality (quality of outputs relative to cost of the work that went into them).
- 2.25 Financing will also be provided for evaluating the program's impacts. This evaluation will be conducted using a non-experimental design that incorporates improvements in the matching of beneficiary and control groups. Impact evaluations will be undertaken in at least two of the program's five cycles and will measure impacts at 6, 12, and 18 months after completion of the training in order to determine how long the impacts last. The factors whose impacts will be assessed are: (i) employment rate; (ii) hours worked; (iii) labor income; (iv) occupational segregation by gender; and (v) job quality.
- 2.26 **Other expenditures.** The program also provides allotments for US\$3.6 million in operating expenses, US\$0.2 million for audits, and US\$3.1 million to cover contingencies and financial costs (see Table II.1 on items of expenditure and funding sources).

C. Costs and financing

Table II.1 Program costs (Thousands of US\$)			
Items of expenditure	IDB	Local	Total
1. Component I. Vocational instruction in TIs and businesses	14,805	900	15,705
1.1 Targeting	300	700	1,000
1.2 Training in TIs	5,825	200	6,025
1.3 Training in businesses	5,390	0	5,390
1.4 Stipends for beneficiaries	3,290	0	3,290
2. Component II. Selection, monitoring, and follow-up of TIs	1,990	0	1,990
2.1 Preparation of roster and selection	850	0	850
2.2 Monitoring and oversight	710	0	710
2.3 Technical assistance	430	0	430
3. Component III. Labor intermediation and information services	0	700	700
3.1 Information services	0	80	80
3.2 Job-search coaching	0	180	180
3.3 Job matching	0	390	390
3.4 Technical assistance	0	50	50
4. Component IV. Evaluation and monitoring	700	50	750
4.1 Evaluation of outputs	0	50	50
4.2 Evaluation of outcomes	500	0	500
4.3 Evaluation of impacts	200	0	200
5. Administration	0	3,600	3,600
6. Audits	200	0	200
7. Contingencies	305	800	1,105
7.1 Contingencies	305	800	1,105
8. Finance charges	0	1,950	1,950
8.1 Interest	0	1,700	1,700
8.2 Credit fee	0	250	250
Total	18,000	8,000	26,000
Percentage	69%	31%	100%

D. Source and terms of financing

2.27 The terms and conditions of the loan are described below.

The interest rate, credit fee, and inspection and supervision fee mentioned herein are set pursuant to document FN-568-3 Rev and may be modified by the Bank's Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendation.

Under no circumstances may the credit fee exceed 0.75% or the inspection and supervision fee exceed 1% of the loan amount.²⁶

Amortization period:	25 years
Grace period:	4 years
Disbursement period:	4 years
Interest rate:	LIBOR-based option
Inspection and supervision:	0.0%
Credit fee:	0.25%
Currency:	U.S. dollars under the Single Currency Facility

²⁶ In any given six-month period, the inspection and supervision fee to be charged will in no case exceed the amount that would result from the application of a charge of 1% of the loan amount, divided by the number of six-month periods included in the original disbursement period.

III. PROGRAM IMPLEMENTATION

A. Borrower and executing agency

- 3.1 The borrower will be the Republic of Peru. The operation will be implemented by the MTPE, through the ProJoven executing unit, which reports to the Office of the Deputy Minister for the Promotion of Employment and of Microenterprises and Small Businesses. The program will be run by an executing unit which will perform technical, administrative, economic and financial duties and will be responsible for planning program activities, managing its execution, and monitoring and evaluating program actions. Since ProJoven has been in operation since 1996, it has a great deal of experience that will be put to good use in the implementation of this program.
- 3.2 The program will have a Consultative Council, made up of the Deputy Minister for the Promotion of Employment, Microenterprises and Small Businesses, the Program Executive Director, three business representatives designated by the National Labor Council, and two representatives of employers and/or TIs that have participated in previous ProJoven cycles at the invitation of the Program Executive Director. The representatives of the business community and of employers and/or TIs will serve on the Council for two-year terms. The Council will be chaired by the Deputy Minister for the Promotion of Employment, Microenterprises and Small Businesses and will be convened twice a year. Its functions will be the following: (i) to contribute ideas and suggestions for strengthening and consolidating the program; (ii) to further efforts to align the program's vocational training exercises more closely with the demands of the production sector; and (iii) to assist and promote firms' participation in the on-the-job phase of the program's training activities.
- 3.3 In the interests of efficiency, responsibility for implementation of the program will remain in the hands of an executing unit that enjoys somewhat more autonomy and flexibility than a line agency of the Ministry of Labor would have. However, with a view to the program's future institutionalization as a line unit of the Ministry, an evaluation of the program's operation will be carried out within the MTPE during its execution as part of the midterm review. The purpose of this measure will be to begin transferring some program activities to MTPE line functions during the second half of their execution.
- 3.4 **Operating Regulations (OR).** The program's implementation will be governed by Operating Regulations (OR) that set forth the standards, procedures, and regulations required for the execution of each program component, together with the functions and duties of the various stakeholders. The OR will be posted on the Internet in order to allow providers and users to familiarize themselves with eligibility criteria, funding requirements, the applicable rules for obtaining economic assistance, service payment procedures, requirements for program participation, etc. The OR

will include guidelines for the practical application of the rules applying to the various program components and their associated modalities, and will specify the monitoring and evaluation benchmarks to be used. The ORs are currently being prepared and will be agreed upon by the Bank and the country during the negotiations preceding the distribution of the project report to the Bank's Board of Executive Directors. The OR must also have been agreed to by the Bank as a condition precedent to the first disbursement.

B. Project implementation and administration

1. Organization of the program executing unit (PEU)

- 3.5 The PEU will be composed of an executive director and three execution units: a technical operations unit, a planning and development unit, and an administrative and financial unit. The technical operations unit will oversee three core areas of the program: an area responsible for the TIs, another for beneficiaries, and another for the technical supervision of program activities. The functions and duties of the PEU will be outlined in the program's OR. The selection of personnel to head up the technical operations unit, the administrative and financial unit, and the planning and development unit, and of coordinators for the TI, beneficiary, and supervisory areas must have received the Bank's no objection.
- 3.6 The unit's executive management will be responsible for directing the program's technical and administrative functions, ensuring that the necessary external resources and national counterpart funds are available, planning, directing, monitoring, and evaluating program activities, signing agreements, arrangements, and contracts with public and private agencies, preparing regular progress reports and evaluations, and supervising and monitoring labor intermediation and information activities. The PEU will have regional coordinators to assist with the implementation of program activities within the country. These coordinators will work in the MTPE's regional bureaus and will be responsible for execution, monitoring, and evaluation of the actions planned and implemented in each regional district.

2. Principal program operations

- 3.7 The program will entail five cycles to be held over its four-year execution period, with approximately 9,000 youths being served in each program cycle. Each cycle will be based on a competitive scheme for the award of contracts to training providers²⁷ and on transparent, objective criteria for the selection of beneficiaries.²⁸ These systems and criteria will be described in detail in the OR. External program

²⁷ The main criteria for the selection of TIs will be: institutional capacity, performance, and the proposed courses' quality and relevance.

²⁸ The main targeting criteria are the poverty of the candidates' households and the extent of their prior training.

impact evaluations will continue to be conducted, and their findings will be incorporated into each new program cycle.

- 3.8 The main steps in the program are the following: (i) preparation of a roster of TIs; (ii) bidding, evaluation, and selection of courses; (iii) targeting young people in the population; (iv) oversight and monitoring of the vocational training phases to be conducted in TIs and in businesses; (v) technical assistance for TIs and ProJoven; (vi) implementation and oversight of labor intermediation and information activities; and (vii) implementation, oversight, and monitoring of evaluation procedures. All of the above functions – with the exception of the labor intermediation services, which are entirely new – form part of the operation that the ProJoven program has been implementing for some time now, and the PEU therefore has built up a great deal of experience in their execution. Improvements will, however, be incorporated into all these processes, and specific technical assistance actions in the various ProJoven units will be required to ensure their proper execution.

C. Implementation of Component I: Vocational instruction in TIs and businesses

- 3.9 The Area in charge of beneficiaries will be responsible for the youth targeting procedures. It will be supported by the SIL in the process of informing candidates about the program. The program will also expand its activities to include, in addition to the cities currently being served, Cajamarca, Ica, Juliaca, Huánuco, Tarapoto, and Ayacucho. The cities now being covered are: Lima, Arequipa, Trujillo, Chiclayo, Piura, Cuzco, Huancayo and Iquitos. The cities being added to the program have been selected on the basis of the size of the target group and the number of potential firms and TIs located in them.
- 3.10 The program will use two main selection criteria. The first has to do with the family group's poverty level, and the second with each youth's level of schooling and vocational training. With respect to the first criterion, the program is looking for young people whose family group is living in poverty, which it measures in terms of unmet basic needs. With regard to the second criterion, the program seeks to assist youths who have not attended institutions of higher learning and who have had fewer than 480 hours of vocational training. In order to detect any possible errors in the targeting process, a sample group of the beneficiary population will be surveyed. This survey will be conducted in each of the program cycles by the unit in charge of targeting and registering candidates.
- 3.11 Payments to TIs will be contingent upon the successful completion of the TI and on-the-job training phases. Once the TI training phase has been completed, 50% of the total fee will be paid. Payment of the remaining 50% will take place once the participants have completed their in-house training programs. Under the payment system, trainees who do not complete their internships in TIs will be charged less than 50% per user provided that the attendance record is at least 60%. Those who

do not complete the worker training phase in businesses will be charged a portion of the total fee per user based on the amount of time devoted to those training sessions and the corresponding formalities. The payment system will be described in detail in the OR.

- 3.12 The payment of stipends and subsidies to beneficiaries will be based on their attendance during the TI training phase. These payments will be disbursed on a weekly basis to the beneficiaries upon submission of evidence of their attendance at the relevant courses. Medical insurance will be provided under the terms of an agreement reached between the program and a health care provider that covers the cities where the program will be implemented. The medical insurer will be chosen from among a number of providers through competitive bidding.

D. Implementation of Component II: Selection, monitoring, and follow-up of TIs

- 3.13 The TI Area will be responsible for preparing the rosters and selecting TIs based on a competitive bidding process. The Oversight Area will be responsible for monitoring the TIs, courses, and program beneficiaries on an ongoing basis.
- 3.14 The steps involved in the preparation of the roster are: (i) issuance of an open invitation to public tender at the national level; (ii) distribution of the bidding conditions; (iii) a consultation period; (iv) submission of background information; (v) verification of participants' eligibility; (vi) random rating and verification of background information, and selection (TIs that score above the minimum required for the program); (vii) official notification and drawing up of the roster; and (viii) appeals.
- 3.15 The basic scoring mechanism for TIs involves an institutional evaluation and a performance evaluation. The institutional evaluation will be based on the background information provided by TIs regarding their human resources and prior experience together with three other key elements: (i) methodologies and practices for developing basic, cross-cutting competencies; (ii) methodologies and practices for developing links with the business community; and (iii) methodologies and practices for limiting the number of students who drop out. A greater weighting will be given to the institutional component of the score for TIs that are applying for inclusion on the roster for the first time and thus do not have any track record on which to base a performance evaluation (their performance score will thus carry a weight of zero). This approach will prevent capable TIs that have only recently entered the market from being excluded from the process. The institutional score will be calculated based on the weightings assigned to the following variables: experience, human resources, methodologies and practices for limiting the number of students who drop out, methodologies and practices for developing basic, cross-cutting competencies, and methodologies and practices for developing links with the business community, in addition to financial management and infrastructure.

- 3.16 Consideration will be given to how TIs have done in past program cycles in order to assign a performance score to each. More specifically, the moving average drop-out rate for each TI in the last two cycles will be evaluated. The drop-out rate will be an elimination variable, with any TI that has high drop-out rates for ProJoven being excluded from the roster for at least one year; after that time, it may again apply for inclusion on the roster on the same basis as a newly created TI.
- 3.17 These two components will be weighted in order to calculate the overall roster score for each institution. The PEU will be responsible for setting a cut-off score, and all TIs that have a score above the cut-off line will be placed on the TI roster and will be eligible to submit course proposals. Initially, the cut-off score will be set with a view to: (i) having TIs that achieve a high level of quality in the key areas mentioned earlier; and (ii) having a TI roster that includes approximately 150 institutions.
- 3.18 The prequalification of TIs will be conducted for each cycle by means of an open local call for proposals. The call for prequalification will be published in a nationwide daily newspaper. The TIs that succeed in prequalifying in accordance with the procedure stipulated in the Operating Regulations will make up the TI roster. This roster will remain open in order to ensure that the greatest possible number of TIs are participating, as new institutions will be added to it in each cycle based on the procedure set out in the Operating Regulations. Once the prequalification process has been completed, an invitation to present proposals will be extended to all the prequalified institutions. The selection of courses will be conducted by means of a restricted local call for proposals directed to all the TIs on the roster that prequalified during the open call. A technical evaluation of the courses will be made, during which they will be rated on the basis of their methodologies, technical approach, and relevance. In addition, a weighting will be assigned to the economic portion of each course proposal. These two evaluations will be consolidated into a score for each course.
- 3.19 Technical assistance will be provided to both the TI Area and the Oversight Area to ensure they are able to perform their new duties properly. A consulting firm and/or independent consultants will be engaged to provide these services. A consulting firm and/or independent consultants will also be engaged to furnish technical assistance to the TIs.

E. Implementation of Component III: Labor intermediation and information

- 3.20 The SIL, together with its network of 17 labor intermediation centers, will be responsible for executing this component in coordination with the PEU. The SIL will furnish predetermined services to the program, and the program will defray the cost of those activities. Since both the program and the SIL form part of the MTPE, payment for these services will be governed by the relevant provisions of the Operating Regulations under the terms of an agreement between the SIL and the program.

- 3.21 As the first such service, the SIL is to design and monitor the process of informing candidates about the nature of the program and its objectives, which is to be accomplished by training the staff of the unit responsible for targeting and signing up program beneficiaries and monitoring its performance.
- 3.22 The second group of services to be provided by the SIL is to coach the program's beneficiaries on how to pursue an effective job search based on an appropriate strategy. The program will pay the SIL for these job-search coaching activities based on the number of beneficiaries actually served. These activities will be carried out during the TI training phase. The goal is to deliver these services to 97% of the program's beneficiaries (approximately 45,600 youths).
- 3.23 The third type of service will be a job-matching process by which the SIL will help program graduates position themselves in the labor market by helping to find a good fit between each youth's characteristics and skills and a vacancy in the job market. The program will pay the SIL for these services based on the number of young people placed in a job through the liaison system. The SIL's current placement rate of approximately 20% has been set as the target figure for this purpose.
- 3.24 In addition, through its labor intermediation centers in cities covered by the program, the SIL will receive technical assistance in adapting its practices and methodologies to the characteristics of the young beneficiaries of this program. A consulting firm and/or independent consultants will be engaged to provide this assistance.

F. Implementation of Component IV: Evaluation and monitoring

- 3.25 The Planning and Development Unit will design monitoring systems and will arrange for external evaluations of the program and any studies needed for its improvement based on the general plan outlined by the program and the criteria stipulated in the Operating Regulations. This Unit will be in charge of collecting baseline information for use in evaluating the program's outputs, outcomes, and impacts. It will also be responsible for compiling all the necessary information for the midterm review, final evaluation, program monitoring, and follow-up. In fulfilling its responsibilities in the evaluation of outputs or implementation, it will monitor delivery performance in terms of: (i) the number of beneficiaries served during the TI training phase; (ii) the number of beneficiaries served during the on-the-job training phase; and (iii) the number of beneficiaries served by the SIL. A supervisory system will also need to be set up in the field in order to monitor program execution.
- 3.26 The evaluation of outputs will be performed by external consultants in accordance with the general plan and the criteria set out herein. The evaluation of basic and generic competencies will be based on sample groups of beneficiaries from at least two program cycles. In evaluating basic competencies, entrance and exit tests will

be administered. The baseline for this purpose will be set before the beneficiaries begin their TI training, and the exit test will be administered once the beneficiaries have completed their on-the-job training. In evaluating generic competencies, a checklist will be used. In this case, an initial measurement of these competencies will be made when the youths finish their vocational training in the TI phase, a second will be made during the on-the-job training phase, and a final measurement will be made at the end of the training period (both phases). The supervisory unit will measure the quality of the services provided by the SIL by means of a client satisfaction survey to be administered to sample groups of beneficiaries from two different cycles.

- 3.27 The evaluation of program impacts will be conducted by externally based on the technical criteria specified for the program. Program impact evaluations will be based on sample groups of beneficiaries from at least two different cycles. The impacts to be evaluated are listed in paragraph 2.25. The Planning and Development Unit will be responsible for gathering the baseline information and for monitoring beneficiaries for the purpose of evaluating the sustainability of these impacts over time.

G. Procurement of goods and services

- 3.28 Procurement of the corresponding goods and services and recruitment of consultants will be conducted in accordance with the relevant Bank procedures and policies. Related goods and services valued at US\$250,000 or over will be procured by means of international competitive bidding procedures. Consultancy services valued at US\$200,000 or over will be contracted by means of an open international call for proposals.
- 3.29 The procurement of goods and consultancy services for amounts below those levels will be governed by the relevant national legislation provided that it is compatible with the Bank's principles and policies, except as expressly provided in paragraph 3.18 herein. Annex II presents the procurement plan for the program.

H. Implementation period and disbursement timetable

- 3.30 The program's four-year implementation period will commence when the loan contract enters into force. The provisional disbursement timetable, which is in keeping with the program's execution capacity and the budgetary resources at its disposal, is as follows:

Table III.2					
Provisional disbursement timetable					
(Thousands of US\$)					
Source	Year 1	Year 2	Year 3	Year 4	Total
IDB/OC	3,050	5,600	5,200	4,150	18,000
Local	1,450	1,900	2,300	2,350	8,000
Total	4,500	7,500	7,500	6,500	26,000

I. Accounting and external audits

- 3.31 The executing agency is to maintain proper accounting and administrative records and a suitable internal control system and is to submit financial reports and statements to the Bank in accordance with the general provisions of the loan contract.
- 3.32 The PEU will be responsible for: (a) preparing and submitting to the Bank: (i) disbursement requests and statements accounting for program expenditures; (ii) semiannual reports on the revolving fund; (iii) audited financial statements and such other financial reports as the Bank may request; and (iv) proper records of supporting documents for eligible expenditures by Bank personnel and external auditors; (b) maintaining proper and separate records of program operations based on a system that also allows them to be integrated into the Ministry's system and thus permit the accounting and financial management of Banking funds and local counterpart resources, in accordance with the Bank's requirements and the relevant internal control structure; (c) keeping separate bank accounts that are used specifically for the loan funds and the local counterpart resources; and (d) conducting the selection and contracting of works, goods and services and undertaking responsibility for the management of financial accounts and contracts.

J. The revolving fund and review of supporting documents for disbursements

- 3.33 The first stage in the procurement of goods and the issuance of consulting contracts (first program cycle) will be supervised by the Bank on an ex ante basis. Subsequent procurement operations may be supervised by the Bank on an ex post basis provided that the value of the goods to be procured is less than the equivalent of US\$100,000 and the value of the consulting services to be engaged is less than the equivalent of US\$50,000. In addition, delivery performance with regard to targets/outputs will be monitored using the quantitative and qualitative benchmarks outlined in the logical framework. The PEU will submit a report on the achievement of targets or progress toward them at the time it submits its disbursement request so that the Bank's Country Office can proceed with the corresponding disbursements. Since the program activities to be financed in this operation will primarily be conducted within the five scheduled program cycles, a revolving fund of up to 10% of the loan amount will be required to cover the disbursements related to each cycle. Semiannual reports on the status of the revolving fund are to be submitted within 60 days after the end of each six-month period.

K. Inspection and supervision

- 3.34 In addition to the monitoring and evaluation procedures described herein, the Bank will establish inspection and supervision procedures as it deems fit to ensure the satisfactory implementation of the program. The Bank's Country Office in Peru

will be in charge of supervising the program's execution. The PEU will cooperate in any way needed to achieve this end.

L. External audits

- 3.35 The program's financial statements are to be verified by a firm of independent auditors acceptable to the Bank in accordance with terms of reference approved by the Bank in advance (documents AF-400 y AF-500). The firm will be selected and engaged in accordance with standard Bank procedures for the selection of external auditing services (document AF-200). The program's annual financial statements will be submitted within 120 days after the close of the fiscal year, and the final auditors' report will be submitted within 120 days after the last disbursement in accordance with the terms of reference approved by the Bank. The midyear semiannual reports, including the evaluation of the internal control system's environment and structure and the complete review of procurement and disbursement procedures, are to be submitted within 60 days after the end of the first half of the calendar year. The proceeds of the IDB loan are to be used to defray the cost of the audits; external auditors should be engaged for multiyear periods of no less than three years in length.

M. Monitoring and evaluation

- 3.36 Once 50% of the loan resources have been committed, a midyear review will be conducted to check on the achievement of benchmarks and to assess the operational scheme for the various program components. A final evaluation of the operation will also be conducted, in addition to the external audit that is to be carried out, as mentioned earlier, to monitor the financial and operational aspects of the program.
- 3.37 Program supervision will include the semiannual progress reports and the annual reviews required in the standard clauses of Bank contracts. In addition, the program will have an accessible monitoring system that will make it possible to review its progress between inspection visits, portfolio reviews or annual meetings. The program's supervisory system will compile, file, and keep on hand all relevant information, indicators, and parameters, including its annual work plans, midterm reviews, and final evaluation. This will make it possible for: (i) the Bank to prepare its program completion report (PCR); and (ii) the Office of Evaluation and Oversight to conduct an ex post evaluation of the program's outcomes and impacts, if it deems fit, in accordance with the policy guidelines set forth in document GN-2254-5. The Bank's Country Office will be in charge of supervising the program's execution and will be supported in this task by independent consultants and the project team, as needed.
- 3.38 During inspection visits, supervisory meetings, and portfolio reviews, the PEU and the Bank will analyze the progress made in implementing the program. These monitoring exercises and assessments will facilitate the evaluation of program outcomes and the implementation of adjustments when and where needed. To this

end, the following elements will be analyzed at the annual meetings to be held by the Bank: (i) the progress made in the components' execution; (ii) the effectiveness and efficiency of program activities; (iii) experiences and difficulties encountered in their execution; (iv) the arrangements made, whether completed or pending, for courses, TI training and on-the-job training, consultancy services, technical assistance, and services; (v) the status of external evaluations of program outcomes and impacts; (vi) achievement of the targets set for each component; (vii) suggestions and recommendations made by the Consultative Council concerning ways of improving the program; and (viii) any other matters that may be useful in determining how well the program is doing in achieving its objectives.

IV. VIABILITY AND RISKS

A. Institutional viability

- 4.1 The preparation and design of this program has benefited from the lessons learned since 1996 in the course of the ProJoven program's implementation, as well as from the Bank's experience with similar projects in other countries of the region. The conceptual design of the program's implementation scheme also reflects consultations with government agencies that deal with social issues and potential program beneficiaries, particularly those undertaken during the preparation of the logical framework. This is a program that has received ongoing support from the MTPE ever since its execution began in 1996. In addition, the program feasibility study, which includes an institutional viability analysis, has been approved by the Ministry of Economic Affairs and Finance (MEF).

B. Socioeconomic viability

- 4.2 Given the evaluations of ProJoven's economic and social rates of return, the program is expected to yield a positive socioeconomic return as well. These returns are calculated by comparing the program's costs with the benefits associated with the young people participating in it, especially in terms of readily observable factors such as employment and income. This potential positive return is, furthermore, based on a conservative approach, since no account is taken of other positive socioeconomic effects, such as improvements in the young people's levels of well-being through, for example, increased self-esteem, the benefit to society of a reduction in delinquency, increased welfare as a result of the greater economic efficiency stemming from reductions in gender-based occupational segregation, and the benefits that the program will bring to the market for training services by introducing higher quality standards and promoting linkages between production enterprises and training institutions. In addition, the program feasibility study, which includes a socioeconomic viability analysis, has been approved by the MEF.

C. Financial viability

- 4.3 The scope of the program is in keeping with ProJoven's demonstrated execution capacity. ProJoven has gained considerable experience in implementing many of the types of activities included in this program and has built up a highly efficient and committed team of professionals. In recent years, ProJoven's disbursement levels have been around US\$3 million annually. For 2004, the MTPE expects to have a budget of approximately US\$3.4 million (12 million soles) to finance ProJoven activities. Although the disbursements associated with the execution of this new program will surpass that figure, the design improvements made in this operation and the technical assistance and reinforcement actions that are planned are expected to facilitate ProJoven's adjustment to these higher disbursement levels.

In addition, the program feasibility study, which includes a financial viability analysis, has been approved by the MEF.

D. Environmental and social impacts

- 4.4 The program will target economically disadvantaged youths. The young people's poverty levels will be measured on the basis of their family group's unmet basic needs. Thus, in addition to qualifying automatically as a social equity enhancing (SEQ) project, it also qualifies as a poverty-targeted investment (PTI). The borrower will not be making use of the 10% in additional financing afforded by the program's PTI status.
- 4.5 Baseline information will be gathered and will be disaggregated by gender so that the impact evaluations can take possible differences between the impacts on male and female beneficiaries into account. Information will also be compiled on program beneficiaries' (i) ethnic/cultural origin, and (ii) language of schooling in line with similar questions that have been incorporated into the national census form.
- 4.6 Ever since its inception, ProJoven has incorporated the gender perspective into its design and has encouraged TIs to provide opportunities for women in the program and the labor market.²⁹ The new program will retain this approach and will continue to regard gender-based occupational segregation as one of the indicators to be used in seeking to generate a positive impact in this regard. It is therefore hoped that women who are either unemployed or working in what are typically "women's occupations" at the commencement of the program will find employment in less segregated occupational categories. It is also expected that the program's positive impacts on beneficiaries in terms of employment, labor income, and job quality will reach its women beneficiaries. The program will continue to support women beneficiaries who have children and will furnish a special subsidy to them during the TI training phase.
- 4.7 The program will seek to galvanize the market for training services by stimulating the provision of courses designed to impart entry-level skills in which young people will learn to handle tools, machines, and equipment that can have an impact on the environment. Steps will therefore be taken to encourage the incorporation of ecological considerations into course designs so that attention is also devoted to environmental protection and to industrial health and safety.

E. Benefits

- 4.8 The program will have an impact on: (i) the economically disadvantaged persons between 16 and 24 years of age who will be its direct beneficiaries; (ii) the

²⁹ Activities that will be maintained will include the use of community leaders (many of whom are women) to promote the program and the provision of an additional subsidy to mothers who are participating in the training activities.

vocational training system and its component institutions, together with the firms that take part in the program's on-the-job training component; and (iii) the operation of the youth segment of the labor market.

- 4.9 The program will have its greatest impact on its direct beneficiaries. The young people participating in the program will increase their productivity and employability thanks to the resulting improvement in their basic competencies, work attitudes, knowledge of the labor market and of existing labor demand, and self-esteem. This, in turn, will result in higher employment rates and income levels for these young people, greater access to better jobs, and longer periods of employment in those jobs. These impacts will then contribute to lower levels of poverty and social inequality.
- 4.10 The firms taking part in the program will have access to a group of potential employees who possess skills and vocational training that have been specifically tailored to their needs and who have adopted suitable work attitudes. Training institutions will be able to develop more relevant courses by designing them on the basis of the actual demand generated by potential employers in different areas of the labor market. This entire process, which will also be supported by a labor intermediation system, will enhance the labor market's efficiency by contributing to a closer and better match between labor demand and supply.

F. Risks

- 4.11 The main challenge to be met during the program's execution is to maintain proper targeting of the beneficiary group and to select TIs that meet clearly defined technical requirements. The corresponding requirements and regulations are discussed in general terms in the program description and are specified in the program's Operating Regulations. Raising the number of beneficiaries above the levels served thus far by ProJoven could introduce another element of risk for this program's execution. Design improvements and specific technical assistance activities aimed at improving ProJoven's performance are expected to permit coverage to be expanded effectively and efficiently.

YOUTH LABOR TRAINING PROGRAM (PE-0241)

LOGICAL FRAMEWORK

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
OVERALL OBJECTIVE: Help to increase the employability ¹ of low-income youths.	IMPACT² <ul style="list-style-type: none"> • Employment rate for program participants is at least 6% higher than the rate for non-participant youths. • Wage-income levels of program participants are at least 18% higher than those of non-participant youths. • Job quality (higher degree of formality/contract, safety and social security) is higher for program participants than for non-participant youths. • Gender-based occupational segregation of program participants is less marked than it is for non-participant youths (a reduction of at least 0.12 points on the Duncan index). 	<ul style="list-style-type: none"> • External impact evaluation 	<ul style="list-style-type: none"> • Economic conditions remain stable enough to facilitate government policies designed to help reduce poverty, unemployment, and underemployment by investing in human capital development strategies.
PURPOSE: To help provide economically disadvantaged youths between the ages of 16 and 24 with access to the formal labor market. This is to be accomplished by means of specific activities designed to provide vocational training and work experience, in conjunction with labor liaison, orientation and information services, that will meet the business sector's and labor market's requirements.	<ul style="list-style-type: none"> • X% of the beneficiaries will improve their basic skills.³ • X% of the beneficiaries will improve their generic competencies.⁴ • 90% of the beneficiaries (42,300) will become more knowledgeable about labor demand. <ul style="list-style-type: none"> ○ 1st cycle: 6,300 ○ 2nd cycle: 7,200 ○ 3rd cycle: 8,100 ○ 4th cycle: 9,900 ○ 5th cycle: 10,800 	<ul style="list-style-type: none"> • Program reporting and monitoring system. • SIL reporting system. • External evaluation of outcomes with respect to basic skills and generic competencies. • Client survey regarding SIL services. 	<ul style="list-style-type: none"> • The government is committed to the program, and budgetary allocations will be sufficient to complete it and ensure its sustainability. • Coordination with training institutions (TIs) and businesses facilitates interest and participation in the program and fosters a commitment to it.

¹ The set of qualities that enables a person to obtain and keep a job and to adapt to its evolving demands (Sulmont, 1986).

² In the impact evaluations, relevant indicators will be disaggregated by gender.

³ The value of this indicator will not be known until the first evaluation of basic skills is carried out (scheduled for July 2005).

⁴ The value of this indicator will not be known until the first evaluation of generic competencies is carried out (scheduled for July 2005).

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
To foster competition and efficiency in the training services market by promoting greater interaction between training providers and production enterprises and, by this means, generating a demonstration effect for the general training system.	<ul style="list-style-type: none"> 24% of the beneficiaries receiving liaison services are placed in the labor market by the SIL. <ul style="list-style-type: none"> 1st cycle: 940 2nd cycle: 1,099 3rd cycle: 1,270 4th cycle: 1,564 5th cycle: 1,710 The TIs performance score average improves in the roster of TIs between the first and fifth cycles. 		
Component 1:			
Vocational instruction in TIs and businesses for low-income youths.	<ul style="list-style-type: none"> 97%, on average, of beneficiaries complete the TI training phase (45,590); this target will be approached gradually. <ul style="list-style-type: none"> 1st cycle: 95% (6,650) 2nd cycle: 96.3% (7,700) 3rd cycle: 97% (8,730) 4th cycle: 97.7% (10,750) 5th cycle: 98% (11,760) 85%, on average, of the beneficiaries who complete the TI training phase (38,750) complete the on-the-job training phase. <ul style="list-style-type: none"> 1st cycle: 73.9% (4,914) 2nd cycle: 78.9% (6,075) 3rd cycle: 88.9% (7,760) 4th cycle: 88.9% (9,555) 5th cycle: 88.9% (10,450) 100% of the beneficiaries who actually attend the TI training course receive a stipend to cover the cost of transportation and meals, and 100% of the women beneficiaries who have children and attend the course receive subsidies. 	<ul style="list-style-type: none"> Program reporting and monitoring system. Evaluation of outputs. 	<ul style="list-style-type: none"> TI interest in participating. Availability of corporate internships.⁵

⁵ Potential low-skill jobs are currently figured at 88,600, based on GDP estimates of the Ministry of Economic Affairs and Finance and an output-employment ratio calculated by the Labor Statistics and Employment Program (estimates for 2004-2007).

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<ul style="list-style-type: none"> In targeting beneficiaries, the percentage of errors detected by sampling checks will not exceed: <ul style="list-style-type: none"> Lima: 8% for screening errors and 12% for under-coverage errors. Regional offices: 5% for screening errors and 6% for under-coverage errors. 		
Component 2:			
<p>TI training is linked to the production sector's needs, which are reflected in internships that upgrade young people's skills.</p>	<ul style="list-style-type: none"> Between 130 and 150 TIs have been placed on the roster based on their institutional and performance scores for each cycle. 100% of the courses are selected on the basis of the TIs' institutional and performance evaluations and the evaluation of the courses' quality and cost. 100% of the TIs placed on the roster receive methodological support materials. At least 75% of the TIs receive assistance in specific subject areas. 	<ul style="list-style-type: none"> Program reporting and monitoring system. Evaluation of outputs. 	<ul style="list-style-type: none"> TIs are interested in participating. Internships are available in business enterprises.
Component 3:			
<p>The labor liaison and information system provides effective support for the program beneficiaries' entry into the labor market.</p>	<ul style="list-style-type: none"> 100% of the beneficiaries (47,000) receive information about the characteristics of the program from the SIL. <ul style="list-style-type: none"> 1st cycle: 7,000 2nd cycle: 8,000 3rd cycle: 9,000 4th cycle: 11,000 5th cycle: 12,000 	<ul style="list-style-type: none"> Program reporting and monitoring system. SIL reporting system. Evaluation of outputs. 	<ul style="list-style-type: none"> The MTPE continues to support the SIL, providing assurance that its financial status is sustainable for the next four years.
	<ul style="list-style-type: none"> 97% of the beneficiaries (45,590) receive job-search coaching from the SIL. <ul style="list-style-type: none"> 1st cycle: 6,730 2nd cycle: 7,760 3rd cycle: 8,730 4th cycle: 10,670 5th cycle: 11,640 		

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<ul style="list-style-type: none"> • 60% of the beneficiaries (27,160) who have not completed their internships or who have not found a job receive job-matching services from the SIL. <ul style="list-style-type: none"> ○ 1st cycle: 3,970 ○ 2nd cycle: 4,593 ○ 3rd cycle: 5,197 ○ 4th cycle: 6,400 ○ 5th cycle: 7,000 		

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Component 4:			
<p>The evaluation and monitoring system generates reliable data on the outputs, outcomes, and impacts achieved by the program, thus providing feedback for the program and permitting its operations to be modified on the basis of those evaluations.</p>	<ul style="list-style-type: none"> • Monitoring and recording of activities (outputs) of five program cycles. <ul style="list-style-type: none"> ○ 1st cycle: August 2005 ○ 2nd cycle: February 2006 ○ 3rd cycle: July 2006 ○ 4th cycle: July 2007 ○ 5th cycle: November 2007 • Evaluation of outcomes (basic skills and generic competencies) of two cycles. <ul style="list-style-type: none"> ○ Report on validation of competency evaluation instrument, July 2005 (1st cycle). ○ First report on evaluation of competencies, January 2006 (2nd cycle). ○ Second report on evaluation of competencies, June 2006 (3rd cycle). 	<ul style="list-style-type: none"> • Program reporting and monitoring system. • Evaluation of outputs • Evaluation of outcomes • Evaluation of imp acts 	<ul style="list-style-type: none"> • The PEU gathers the baseline information needed for evaluations.
	<ul style="list-style-type: none"> • Evaluation of client satisfaction with SIL services in two cycles. <ul style="list-style-type: none"> ○ First report on evaluation of client satisfaction with SIL services (2nd cycle), January 2006. ○ Second report on evaluation of client satisfaction with SIL services (3rd cycle), June 2006. • Evaluation of impact in two cycles and its duration. <ul style="list-style-type: none"> ○ First impact evaluation report (3rd cycle). ○ First measurement: Sept. 2006. ○ Second measurement: March 2007. ○ Third measurement: Sept. 2007. ○ Second impact evaluation report (3rd cycle). ○ First measurement: February 2007 ○ Second measurement: August 2007 ○ Third measurement: February 2008. 		

YOUTH LABOR TRAINING PROGRAM

Main project procurements	% financing IDB	% local financing	Contract amount (thousands US\$)	Total pro- curement amount (thousands US\$)	Pro- curement method ⁱ	Prequali- fication	Year
Consulting services							
International consultants							
<i>Component II. Selection, monitoring and follow-up of training institutions (TIs)</i>							
- Consulting firm to monitor quality and perform oversight functions	100	-	250	250	ICB	No	2004, 2005, 2006 & 2007
- TI technical assistance	100	-	330	330	ICB	No	2004 & 2005
<i>Component IV. Evaluation and monitoring</i>							
- Consulting firm to evaluate outcomes	100	-	460	460	ICB	No	2005
- Consulting firm to evaluate impacts	100	-	200	200	LCB	No	2005
<i>Audits</i>							
- Operational financial audits	100	-	200	200	ICB	No	2007
Local consultants							
<i>Component I. Vocational instruction in TIs and businesses</i>							
- Health insurance for beneficiaries	100	-	100	100	LCB	No	2004, 2005, 2006 & 2007
<i>Component II. Selection, monitoring and follow-up of TIs</i>							
- ProJoven technical assistance	100	-	100	100	LCB	No	2004, 2005
<i>Component III. Labor liaison and information services</i>							
- SIL technical assistance	-	100	50	50	LCB	No	2004, 2005
<i>Component IV. Evaluation and monitoring</i>							
- Consulting firm for client satisfaction surveys	100	-	40	40	LCB	No	2006
D. Training							
<i>Component I. Vocational instruction in TIs and businesses</i>							
- Competitive bidding round 1 (Courses for 7,000 beneficiaries; 20 TIs)	98	2	85	1,700	LCB	Yes	2004
- Competitive bidding round 2 (Courses for 8,000 beneficiaries; 23 TIs)	98	2	85	1,900	LCB	Yes	2005
- Competitive bidding round 3 (Courses for 9,000 beneficiaries; 26 TIs)	98	2	85	2,200	LCB	Yes	2005
- Competitive bidding round 4 (Courses for 11,000 beneficiaries; 31 TIs)	98	2	85	2,700	LCB	Yes	2006
- Competitive bidding round 5 (Courses for 12,000 beneficiaries; 34 TIs)	98	2	85	2,900	LCB	Yes	2007

ⁱ ICB: International competitive bidding LCB: Local competitive bidding